

Summary:

Bernalillo County, New Mexico; General Obligation

Primary Credit Analyst:

Sussan Corson, New York (1) 212-438-2014; sussan_corson@standardandpoors.com

Secondary Credit Analyst:

Kaitlyn Connors, San Francisco 415-371-5033; kaitlyn_connors@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Bernalillo County, New Mexico; General Obligation

Credit Profile		
US\$4.2 mil GO bnds ser 2011 due 02/01/2019		
Long Term Rating	AAA/Stable	New
Bernalillo Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Bernalillo County, N.M.'s series 2011 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating on the county's existing GO debt.

The ratings reflect what we view as the county's:

- Central role in the state economy;
- Relatively stable economic base with strong links to the government, defense-related research, health care, and high-tech sectors;
- Strong financial management and consistent maintenance of large general fund balances;
- A relatively low level of operational funding interdependencies with the federal government; and
- Low overall debt burden and rapid amortization of principal despite elevated debt service carrying charges.

Unlimited ad valorem property taxes levied on all taxable property within the county secure the bonds. We understand that bond proceeds will be used to fund library, parks, and facility projects.

Bernalillo County, with a population of 713,000, serves as the state's financial and commercial center. In 2010, total government employment in the county represented 21% of jobs with only about 6% of Bernalillo County employment in federal or military jobs. Leading employers in the Albuquerque metropolitan statistical area (MSA) include Kirtland Air Force Base and Sandia National Laboratories. Other significant area employers include Intel Corp., the University of New Mexico, the City of Albuquerque, Albuquerque Public Schools, and several hospitals. According to estimates from the Bureau of Labor Statistics, the county's unemployment was 7.8% in June 2011, down from the 8.5% annual average in 2010 and below the national level of 9.2%. However, according to IHS Global Insight Inc., employment in the Albuquerque MSA remains weak with declines in the labor force and job losses in the construction, information, financial, and manufacturing industries in the past couple of years. County income indicators are good, in our opinion, with median household and per capita effective buying incomes at 93% and 98% of national averages, respectively.

The county's assessed value fell by 2% in tax-year 2010 and by 0.2% in 2011 to \$13.98 billion. Officials attribute a portion of the 2010 decline to a retroactive reassessment of residential property value in Bernalillo County. Proposed

legislation that would have conformed residential property assessments statewide did not pass in the 2010 legislative session; however, officials believe the assessor has already made the adjustments to its tax base should similar proposals in future sessions be successful.

Bernalillo County has historically maintained strong general fund reserves above the state-mandated minimum of 25% of expenditures. In addition, the county commission recently approved a policy requiring another 16.7% minimum fund balance above the 25% minimum--for a total 41.7% minimum fund balance. In fiscal 2010, the audited unreserved general fund balance, including the 3/12th minimum reserve requirement and various designations, totaled \$182.6 million, or a very strong 85.8% of expenditures, in our opinion. In fiscal 2011, officials estimate revenues exceeded expenditures by \$3.7 million on a budgetary basis after transfers out for debt service. We calculate that just the 25% reserve requirement and the board's 16.7% reserve requirement total about \$102 million, or a very strong 47% of expenditures, in our view. In fiscal 2012, officials indicate that they expect a generally balanced budget and stable reserve levels; however, they could use up to \$2.6 million of reserves to maintain property tax rates in the county.

The county's operating revenue comprises primarily property tax and gross receipts taxes, which combined represent 87% of all general fund revenue. County management estimates it received \$88.9 million of gross receipt tax (GRT) revenues in the general fund in fiscal 2011, which is fairly stable compared with the \$89 million received in fiscal 2010. GRT represented about 39% of Bernalillo County's general fund revenue in fiscal 2010. County officials indicate they budgeted \$87 million of GRT in fiscal 2012, a decrease of \$2 million from previous-year estimates, based on conservative projections. Property tax revenues represented 48% of general fund revenue in fiscal 2010. Despite a small additional decline in the property tax base in 2011, the statutory yield control formula adjusts the operational tax rate to maintain property tax revenues to the general fund. In fiscal 2011, the commission chose to lower the debt service levy to maintain the total tax rate for Bernalillo County residents. For fiscal 2012, the county commission has not finalized the tax rate. Should the commission choose to maintain a flat tax rate by lowering the debt service levy again, officials estimate they could use \$2.6 million of general fund reserves to cover the shortfall in property tax revenues. Property tax collection rates have fallen in the past few years, totaling 95.6% for tax year 2010 as of June 30, 2011. Management indicates it typically budgets for 95% of the levy. The county receives no federal money in its general fund and federal grants, including grants for housing and transportation projects, represented 6.8% of governmental revenue in fiscal 2010.

Included within the general fund budget is the county metropolitan detention center's annual costs of \$55 million in fiscal 2010 and officials estimate jail-related expenditures, which totaled \$53 million in fiscal 2011, or about 25% of general fund expenditures. The county has budgeted for \$57.4 million of costs related to the detention center in fiscal 2012 based on what it indicate are conservative assumptions. Bernalillo County collects a one-eighth correctional GRT that generates about \$19 million to support a portion of the operations of the county detention center; it has supported the balance of jail operations with other general county revenue. In addition to the \$57 million budgeted in the general fund, Bernalillo County accounts for about \$6 million of inmate medical and dental contract costs in its health care tax fund supported by a portion of a one-eighth health care gross receipts tax collections. According to officials, the jail houses only county prisoners.

We consider Bernalillo County's management practices "strong" under our Financial Management Assessment (FMA) methodology. An FMA of strong indicates our view that practices are strong, well embedded, and likely sustainable. In the summer of 2011, the county commission approved a new policy that requires an additional 2/12th minimum reserve above the state mandated 3/12th reserve in the general fund.

Overall general obligation (GO) debt, including this issuance, is what we consider low at about \$1,387 per capita and 2.4% of market value, including overlapping debt. Amortization is rapid, with 74% of GO debt retiring within 10 years. The annual debt service carrying charge in fiscal 2010 was what we view as elevated at 17.3% of governmental expenditures, less capital outlay. The county contributes to the Public Employee Retirement Association's (PERS) plan as required by statute and to the New Mexico Retiree Health Care Fund's defined health care plan. The authority's combined contributions totaled \$13.5 million in fiscal 2010, or 6% of general fund expenditures. As of June 30, 2010, the state's PERS was 81% funded with an unfunded actuarial accrued liability of about \$3.4 billion. Statutes determine contribution rates, which are not linked to the actuarial valuation of the fund. This underfunding of the annual required contribution in addition to declining market value of assets have contributed to deteriorating funding ratios for the state plan.

Outlook

The stable outlook reflects what we view as the recent stabilization of general fund revenue as well as our expectation that county management will continue to adjust its budget, as necessary, to maintain structural budgetary balance. The outlook also reflects our expectation that Bernalillo County will maintain a very strong financial position, despite some recent declines in the tax base. While federal employment remains a component of the local economy, the regional economy is fairly diverse and somewhat stabilized by health care and local government. The rating could be pressured if a substantial retrenchment in federal spending results in significant regional economic slowdown affecting the tax base.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.